

DATE ISSUED: November 30, 2005 REPORT NO.: CCDC-05-47

ATTENTION: Chair and Members of the Redevelopment Agency  
Docket of December 6, 2005

SUBJECT: Lillian Place - Proposed Second Implementation Agreement to Owner  
Participation Agreement – East Village Redevelopment District of the  
Expansion Sub Area of the Centre City Redevelopment Project

REFERENCE: Line Item Budget  
Implementation Agreement

STAFF CONTACT: Dale Royal, Senior Project Manager

#### SUMMARY

Issue – Should the Redevelopment Agency approve the proposed Second Implementation Agreement to the Owner Participation Agreement between the Redevelopment Agency of the City of San Diego and Lillian Place L.P. for development of the Lillian Place affordable housing project located on the south side of J Street between 14<sup>th</sup> and 15<sup>th</sup> streets?

Staff Recommendation - That the Redevelopment Agency of the City of San Diego (“Agency”) approve the proposed Second Implementation Agreement (“Implementation Agreement”) to the Owner Participation Agreement (“OPA”) between the Agency and Lillian Place L.P. (“Developer”) for development of the Lillian Place affordable housing project (“Project”) located on the south side of J Street between 14<sup>th</sup> and 15<sup>th</sup> streets.

Centre City Development Corporation Recommendation – On October 26, 2005, the Corporation Board of Directors voted unanimously in favor of the proposed Implementation Agreement to the OPA.

Centre City Advisory Committee Recommendation – None.

Other Recommendations - On September 16, 2005, the San Diego Housing Commission voted unanimously to approve a loan to the project in an amount of \$731,000 from the Inclusionary Housing Fund, in accordance with the proposed financing structure.

Fiscal Impact - No additional Agency funds are requested with this action. The Agency has approved a loan in an amount not to exceed \$7,289,000 for the Project. The proposed Implementation Agreement would allow the Developer to increase the project budget from \$22,250,000 to \$23,458,538 to account for cost increases. Additional project costs would be covered by a larger bank loan, additional tax credits, Federal Home Loan Bank Affordable Housing Program ("AHP") funds, and a loan from the San Diego Housing Commission's Inclusionary Housing Fund.

## BACKGROUND

This Project advances the Visions and Goals of the Centre City Community Plan and the Objectives of the Centre City Redevelopment Project by:

- Expanding and improving the supply of low- and moderate-income housing;
- Facilitating an economically- and socially-balanced population;
- Contributing to the vision of downtown as a major residential neighborhood;
- Commemorating the historical significance of the site; and
- Eliminating blight.

On December 9, 2003, the Agency approved an Owner Participation Agreement with Wakeland Housing and Development Corporation for the development of Lillian Place, a 74-unit affordable rental housing project located on the south side of J Street, between 14<sup>th</sup> and 15<sup>th</sup> streets in the East Village District of Downtown. The Project will consist of a mix of one-, two- and three-bedroom units with rents affordable to persons earning from 30% to 110% of area median income ("AMI"). The OPA provided for an Agency loan in an amount not to exceed \$5,450,000.

On September 22, 2004, the Agency approved a First Implementation Agreement to the OPA to address changes in the project budget due to increases in the cost of materials (most notably steel) and additional unanticipated off-site requirements. The Agency loan increased by \$1,839,000 to an amount not to exceed \$7,289,000.

Construction began in March 2005, and currently the Project is about 20% complete with occupancy estimated by July 2006.

In June 2005, the Developer reported that the Project is running over budget by \$1,208,538. To address the funding gap, the Developer proposes to increase the amount of its permanent loan by \$185,794, to secure an additional \$56,744 from the tax credit investor, to utilize \$235,000 in AHP funds, and is requesting a loan in the amount of \$731,000 from the San Diego Housing Commission ("Housing Commission").

On September 16, 2005, the Housing Commission recommended approval of a \$731,000 loan to the Project. The OPA would need to be amended to allow a portion of the Agency's share of Project cash flow to be utilized to repay the Housing Commission loan.

## DEVELOPMENT TEAM

ROLE/FIRM	CONTACT	OWNED BY
Developer Lillian Place L.P.	Ken Sauder, Executive Director	Non-profit Board of Directors (501(c) 3)
Managing General Partner Wakeland Housing & Development	Barry Getzel, Sr. Project Manager	Non-profit Board of Directors (501(c) 3)
Co-general Partner Interfaith Housing	Matt Jumper Brady Gunther	
Architect Studio E Architects	John Sheehan, Principal	Principals: Brad Burke Eric Naslund John Sheehan (Private Firm)

#### DISCUSSION

Scope of the Project - The Agency entered into an OPA with the Developer for the development of a 74-unit affordable housing project. The Developer is requesting \$731,000 in funds from the Housing Commission's Inclusionary Housing Fund to cover Project cost increases. The proposed Second Implementation Agreement modifies the OPA to accommodate the new source of funds.

Disposition of Property - The site is privately owned by Lillian Place L.P.

Participation by Agency - Pursuant to previous actions, the Agency is providing a \$7,289,000 residual receipts loan to the Project. No additional Agency funds are requested with this action.

Proposed Schedule - The Project is under construction with completion estimated in summer 2006.

Project Benefits - The project will expand the supply of low-income, family-oriented rental housing in downtown.

The Developer provided staff with an itemized list of the budget increases and an explanation of each circumstance (See Exhibit A - Line Item Budget). The most significant impacts on project costs include:

- Disposal of unanticipated lead-contaminated soil;
- Prolonged litigation to defend lawsuits by the Black Historic Society;
- Construction delay caused by weather and issues with adjacent-property owner;
- Utility installation costs and movement of undocumented telephone and cable lines;
- Design and artwork for historic exhibit and display panels;

- Increased owner and general contractor insurance costs; and
- Additional security and fencing to mitigate trespassing by homeless.

The Housing Commission is recommending funding the Project with Inclusionary Housing Fund revenues generated by in-lieu fees collected from downtown. The Housing Commission administers the Inclusionary Housing Program ("Program") and receives the in-lieu fees which are collected by the City's Development Services Department. The fees are deposited into one of the main revenue accounts of the City of San Diego's Affordable Housing Fund called the Inclusionary Housing Fund. **In accordance with the Program, revenues are to be spent, whenever possible, in the same Community Planning Area from which the fees were collected.**

Proposed Project Budget Revisions

Source of Funding	Current	Proposed	Change
Permanent Bank Loan	\$4,270,000	\$4,454,794	\$184,784
Agency Loan	\$7,289,000	\$7,289,000	None
Housing Commission Loan	None	\$731,000	\$731,000
AHP Funds	None	\$235,000	\$235,000
Low Income Housing Tax Credits	\$10,291,000	\$10,348,744	\$57,744
Deferred Developer Fee	\$400,000	\$400,000	None
<b>Total</b>	<b>*\$22,250,000</b>	<b>\$23,458,538</b>	<b>\$1,208,538</b>

*\*Number is rounded off.*

Use of Funding	Current	Proposed	Change
Acquisition	\$4,222,084	\$4,236,017	\$13,933
Direct Costs	\$13,591,234	\$14,249,598	\$658,364
Indirect Costs	\$2,895,514	\$3,431,872	\$536,358
Financing Costs	\$1,541,066	\$1,541,051	-\$ (15)
<b>Total</b>	<b>*\$22,250,000</b>	<b>\$23,458,538</b>	<b>\$1,208,538</b>

Proposed Implementation Agreement

The Implementation Agreement is attached as Exhibit B. The essential terms and conditions are as follows:

- Project's total development cost would increase from \$22,250,000 to \$23,458,538.
- Sources of funds would be revised to show the permanent loan increased to \$4,454,794, AHP funds increased to \$235,000, Low Income Housing Tax Credits increased to \$10,348,744, and to add a new source of funds: a Housing Commission Loan in the amount of \$731,000.
- The Agency would delete the provision that, in the event that the Developer receives AHP funds, that the Agency loan be reduced by the amount received from the AHP loan. The Developer would retain and utilize AHP funds to cover project costs.
- The Housing Commission loan is proposed in an amount not to exceed \$731,000 bearing simple interest of 3%, recorded as subordinate debt to the Agency loan. The term of the loan is 55 years. Repayment would be from available residual receipts.
- The Agency would revise the formula used to calculate the split of residual receipts to allow a proportional share of residual receipts to be used for repayment of the Housing Commission loan. The total combined local public subsidy would be \$8,020,000. At \$731,000, the Housing Commission share would be 9%, and the Agency share would be 91% with its \$7,289,000 loan. The Developer and the two public agencies would split available residual receipts as follows:

Split of Residual Receipts	Current	Proposed
Year 1-30	50.0% Developer 50.0% Agency	50.0% Developer 45.5% Agency 4.5% Housing Commission
Year 31-55	20.0% Developer 80.0% Agency	20.0% Developer 73.0% Agency 7.0% Housing Commission

Keyser Marston Associates ("KMA"), economic consultant to the Agency, has reviewed the Developer's proforma and the proposed loan repayment plan and concurs with the proposed financing structure.

#### PROJECT ANALYSIS AND IMPACT ASSESSMENT

Environmental Impact – Under the 1992 Master Environmental Impact Report (MEIR) and Final Subsequent Environmental Impact Report (SEIR), an Environmental Secondary Study is prepared for all developments in the Centre City area in order to evaluate the project's compliance with the Community Plan and PDO and,

therefore, the findings and conclusions of the MEIR and SEIR. Unless the project is found to be out of compliance with those planning documents, no further environmental review is required.

SUMMARY/CONCLUSION

The Lillian Place project is critical to efforts to expand the supply of affordable family housing in downtown. The Developer's request for additional funding has been evaluated and staff believes the Developer has taken adequate steps to minimize the amount of public subsidy requested.

The Developer is seeking a loan in the amount of \$731,000 from the San Diego Housing Commission's Inclusionary Housing Fund revenues generated from in-lieu fees collected from the Centre City Community Planning Area. No additional Agency funds are requested with this action. It is recommended that the Board approve the proposed Second Implementation Agreement to facilitate the proposed change in the project budget and sources of funds.

Respectfully submitted,

Concurred by:

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Dale Royal  
Senior Project Manager

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Peter J. Hall  
President

**Exhibit(s):**

Exhibit A - Line Item Budget

Exhibit B - Implementation Agreement